Acklands

Nineteen Seventy Seven Annual Report

Hyman Bessin

Hyman Bessin, entrepreneur, philanthropist and Chairman of the Board of Acklands, died on February 26, 1978 at the age of 67. His sudden and untimely death was a deep shock to his family and business associates.

Few men achieved as much in life as Hyman Bessin. His accomplishments were truly remarkable. For 19 years, he worked arduously on behalf of Acklands; presiding over the company's transition from a small Winnipeg wholesaler to one of Canada's largest and most successful merchandisers. His persistence and courage, sometimes against overwhelming obstacles, was an inspiration for all those who worked with him.

He was a determined creator. He had numerous successes in a broad spectrum of commercial ventures. As a businessman his success was founded on his concern for people. In all his endeavours, his warmth and humanity attracted the respect and goodwill of his business colleagues and employees.

As a philanthropist, Mr. Bessin was a combination of idealist and builder. He was founder, benefactor and trustee of several universities, theological seminaries, hospitals, communal and religious organizations in Canada, the United States and in Israel. His philanthropic achievements were truly a reflection of his vision of a better society.

The strength of Mr. Bessin's character was in the love and pride for his family and his dedication to religious convictions. His spirit will forever be incorporated in Acklands and his business friends and faithful employees will always remember the achievements of this outstanding man.

Acklands' business

Acklands is Canada's leading independent merchandiser of automotive replacement parts and accessories. Over eighty percent of the company's business is in the distribution and marketing of automotive aftermarket products and in the related industrial equipment and supplies field.

Canada's "aftermarket" is comprised of the parts and equipment needed to service and maintain passenger vehicles, industrial, marine and outdoor power equipment. The company operates from a national network of warehouse distribution centres, wholesale automotive jobbing outlets and its wholesale/retail chain of Bumper to Bumper auto parts stores.

The balance of Acklands' sales is derived from the marketing and distribution of leisure, home entertainment and electronics products. Acklands employs more than 3,400 people and supplies customers from 309 sales centres in cities and towns throughout Canada.

Annual meeting

The Annual Meeting of Acklands Limited will be held on Thursday, May 4, 1978 at 2:30 p.m. in the Grand Ball Room East of the Sheraton Centre Hotel, 123 Queen Street West, Toronto, Ontario, Canada.

Contents

Pour un exemplaire du présent rapport en français, veuillez vous adresser au Siège administratif d'Acklands.

This report is available in French. For a copy please contact the Executive Office of Acklands.

Cover: *"Bumper to Bumper — the way of the future"*

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Acklands

Financial Highlights

	1977	1976
***Sales**	**$280,446,097**	$289,203,489
Income before taxes and extraordinary item	**3,706,664**	5,877,537
Income after taxes		
Including extraordinary item	**3,127,978**	3,472,474
Before extraordinary item	**3,055,060**	3,304,801
Earnings per common share		
Before gain on sale of fixed assets and extraordinary item	**.35**	1.10
Gain on sale of fixed assets	**.78**	.11
Income before extraordinary item	**1.13**	1.21
Net income	**1.16**	1.28
Dividends paid		
Preference shareholders	**215,155**	244,859
Common shareholders	**1,208,997**	1,207,596
Dividends paid per common share	**.48**	.48
Shareholders' equity	**43,674,811**	42,112,643
Equity per common share	**15.97**	15.27
Total assets	**$168,677,301**	$180,436,146

*Before eliminating sales of closed branches

Distribution of the 1977 sales dollar

Suppliers	67.9¢
Selling expense	9.8¢
Employees	16.7¢
Depreciation and interest	4.3¢
Taxes	.2¢
Profit	1.1¢
	$1.00

President's report to shareholders

Acklands

It was another tough year for Acklands and for the entire automotive aftermarket but actions were taken to strengthen operations and several significant breakthroughs were achieved during 1977.

Results Disappointing

Sales were $270.0 million, up five percent from $257.5 million in 1976, after the elimination of sales from closed branches. The sales volume of branches closed in 1977 amounted to $10.4 million. In 1976, the comparable figure was $31.7 million. These adjustments were made so that only sales from continuing operations were reflected in the results, enabling accurate comparison between 1977 and 1976.

Pre-tax earnings were $3.7 million, down 37 percent from the previous year's $5.8 million. These figures include profit from the disposition of real estate.

In 1977, Acklands realized a gain on sale of fixed assets of nearly $2 million compared to $289 thousand in 1976. Most of this gain resulted from the sale of excess property stemming from branch closings in 1976 and 1977.

Gain on the sale of fixed assets partially offset losses from closed branches totalling $1.7 million in 1977 and $2.7 million in 1976.

Net income was $3.1 million or $1.16 per share, compared to $3.5 million or $1.28 per share in the previous year.

Opposite:
Nathan Starr — *President (sitting)*
George Forzley — *Senior Vice-President and General Manager*

Why Earnings Declined

Four main factors accounted for this year's poor profit performance. They are reviewed in order of priority as follows.

First, Acklands eliminated a number of major product lines which was costly. In 1977, the company ceased the distribution of Sekine bicycles, Volvo outboard engines and Lund boats. The prairie franchise for Mercury Outboard Engines and parts was lost. Our record and pre-recorded tape division was wound down and liquidated. In Alberta, the T.V. and White Goods Division was closed. The last of the "Actron" home entertainment inventory was sold or written off. The air-cooled engine division, severely weakened by the loss of the Briggs & Straton Engine line, was sold and the Eastern Canada Machine Tool Division was reorganized. In all cases, expenses and losses associated with liquidation were absorbed as they occurred.

Some of these lines were eliminated on the company's own volition. In the case of others, Acklands was subject to the dictates of the manufacturers, who chose to cancel exclusive distribution agreements.

Although these were all outstanding products, financing their distribution absorbed a great deal of capital. They were expensive to warehouse, distribute and market. Margins were not as attractive as those for automotive parts and we were highly vulnerable to capricious consumer demand for big ticket items.

Closing out these lines cost money. In some cases, in order to dispose of inventory, we cut prices drastically. Fixed assets necessary to handle these lines had to be written off. A great deal of valuable management time was required in the clean-up process. However, the task has been completed and considerable capital has been freed up for other, more profitable uses.

Secondly, our pruning of substandard operations continued during 1977. We closed 49 branches, 34 of them in Ontario and Quebec. Over a two year period, Acklands has shut down 83 locations.

This has been an aggressive consolidation program, heightened by the company's decision to rationalize its business mix and corporate policy decisions relating to minimum profit returns. We want to ensure a stable base for future expansion and thus are either closing or re-organizing all those operations which have failed to generate acceptable profits. By the end of this year, all continuing operations should be profitable.

Branch closings are very expensive. Inventory must be cleared. Staff have to be relocated. Leases must be paid or the real estate sold, and fixtures liquidated. Once again, valuable management attention must be devoted to non-profit activities. All costs relating to closures during 1977 were fully expensed during the year.

Third, our leisure and home entertainment sales were severely affected by slow demand. Lawn care equipment sales were very weak, as were stereo and audio equipment sales. Television sales were also hard hit by tariffs and the decline in exchange rates, both of which cut into sales and gross margins.

The Leisure Division has been restructured following the loss of major exclusive products mentioned earlier. There are encouraging signs for this product group. Several lines increased their market share despite sagging sales in the industry as a whole. Costs have

also been greatly reduced and the Division remains profitable.
Finally, substantial development costs were incurred for our entry into retailing, particularly for Auto Place, our new auto parts and service subsidiary.

Keeping Our Promises

Not all the news was negative, however. Acklands made progress on several fronts, in keeping with policy decisions already announced to our shareholders.
The most important development is our penetration of the automotive parts retail market. Two different programs have been established — Bumper to Bumper and Auto Place. These are reviewed later in this report.
Acklands' management has recognized for some time that retailing in the automotive aftermarket is the key to higher returns for our shareholders. Retailing offers better profit margins and the opportunity for faster growth. It has the advantages of eliminating escalating expenses associated with sales calls, product delivery and the financing of receivables. Retailing will improve our earnings and our return on invested capital. The decisions have been made and Acklands is fully committed to becoming a complete merchandising company, encompassing both wholesale and retail. The benefits should be evident as early as 1979.

A second important objective — lower inventories — was also achieved in 1977. Inventories were cut by $8.0 million,or nine percent, despite an increase in sales. Interest expense was reduced by 14 percent during the year. Accounts receivable are in excellent shape and the company's debt structure is lower. Our balance sheet is considerably stronger than it was a year ago.
In line with policy, Acklands is increasingly concentrated in automotive and industrial markets, where the greatest strength of the company lies. In 1977, these automotive and industrial products accounted for 83 percent of total sales, up from 62 percent in 1973. The current mix of inventories also reflects this trend. The result is a tighter, more efficient company capable of higher returns.
Rationalization of product lines will continue in 1978.

Although 49 branches were closed last year, 26 were opened — evidence that expansion into new markets continues at the same time as consolidation of existing operations. Our stated policy is to establish new facilities where economic development is strongest and therefore, 13 of these openings occurred in Alberta, assuring Acklands of profitable participation in large new resource development projects.
Further expansion is planned in 1978 to assure capturing a larger share of growth markets.

Acklands made great strides in computerization during 1977. Outside consultants completed the design of a fully integrated management information system for inventories, invoicing and ordering which will eventually include all branches and warehouses in our network. Implementation is now in progress; both the H. C. Paul (leisure goods) Division and the Winnipeg Head Office, are now on stream. This multi-million dollar system will help to maintain optimum inventories, locate product within the system and provide accurate, up-to-date information on profit margins. Better sales and profits will result, although the benefits will not be evident until 1980.
Mechanization of warehousing reached a new level of excellence with the opening last year of our new Regina warehouse. Probably the most modern anywhere in Canada, this facility has been described in trade journals as one of the most functional in the industry. Total area, including a mezzanine, is 74,000 square feet. It contains six separate profit centers, all using the same storage and handling system, for maximum utilization and efficiency.

Planning Objectives Established

Acklands has undergone enormous changes in the past few years. From wholesaler to merchandiser. From fragmentation and small scale operations to consolidation and economical size. From decentralized, manual systems to centralized, high technology management controls. From diverse and unrelated product distribution to rationalized, concentrated specialization in fewer product lines.

Acklands

These developments have occurred simultaneously and the short term effect has been to interrupt the upward curve in sales and profits. But these changes are necessary for survival and improved returns in the 1980's.

Increased costs of energy and transportation, higher property taxes and labour rates, point to the need for significant changes in merchandising. Distribution costs have been growing disproportionately to those in manufacturing and this imbalance must be redressed in the form of higher productivity and improved efficiency by national merchandisers such as Acklands. We are responding to this challenge.

By the end of 1980, we expect to have 90 percent of total sales from automotive and industrial products and 25 percent of those sales from retail customers. Our growth will be largely internal — mostly stemming from increased sales in existing branches where retail and wholesale functions have been combined.

Growth will be partly financed by the elimination of all uneconomical product lines and the disposition of redundant and surplus assets resulting from consolidation and closure of marginal branch operations.

The effect of these policies, together with further progress in the application of new computer and materials handling technology, should achieve the levels of efficiency and productivity we need to reward our shareholders adequately. Acklands' management will continue to make every effort to produce better profit results.

A Note of Appreciation

Despite all the changes that have taken place, our employees, customers, suppliers and shareholders have remained very supportive and loyal. We thank you for your patience and understanding.

Acklands lost two important members of its executive team in recent months. The passing of our Chairman, Mr. Hyman Bessin, was a deep and sudden shock to all of us. We miss him deeply.

Mr. Frederick Wilks, a Director since 1974, died in December of last year. From its early stages, Mr. Wilks played an important role in financing Acklands' growth. His counsel and wisdom were greatly appreciated by his fellow Directors.

Outlook for 1978

The prospects for the Canadian economy as a whole are not encouraging. Inflation continues while unemployment has risen. Real economic gains have fallen and capital spending is still at depressed levels. Phasing out AIB controls this year — which the federal government has promised — will help business confidence but prospects are far from optimistic. Improvement in Acklands' performance will come from greater efficiency of operations and expansion into new areas of business not from general economic conditions. This is a stern test of our management capabilities and our decision to penetrate retail markets. Nonetheless, we cautiously anticipate that these two factors will generate higher earnings for Acklands in 1978.

Nathan Starr

NATHAN STARR
President

Toronto, Canada
March 1, 1978

Financial Review

Although profits were depressed in 1977, Acklands did manage to achieve some important financial goals during the year. The most notable was reduction in inventory levels which helped to reduce bank advances and interest charges. For the year ended November 30, 1977, inventories were cut back by $8.0 million or 8.6 percent, short term bank advances were reduced by $1.6 million and interest expenses declined 14.3 percent to $10.1 million.

Common Shareholders' Equity
Equity per common share was $15.97 at year end, up from $15.27 in the prior year and $9.91 in 1973. Over a five year period, common shareholders' equity has increased by 61 percent.

Common Shareholders' Equity

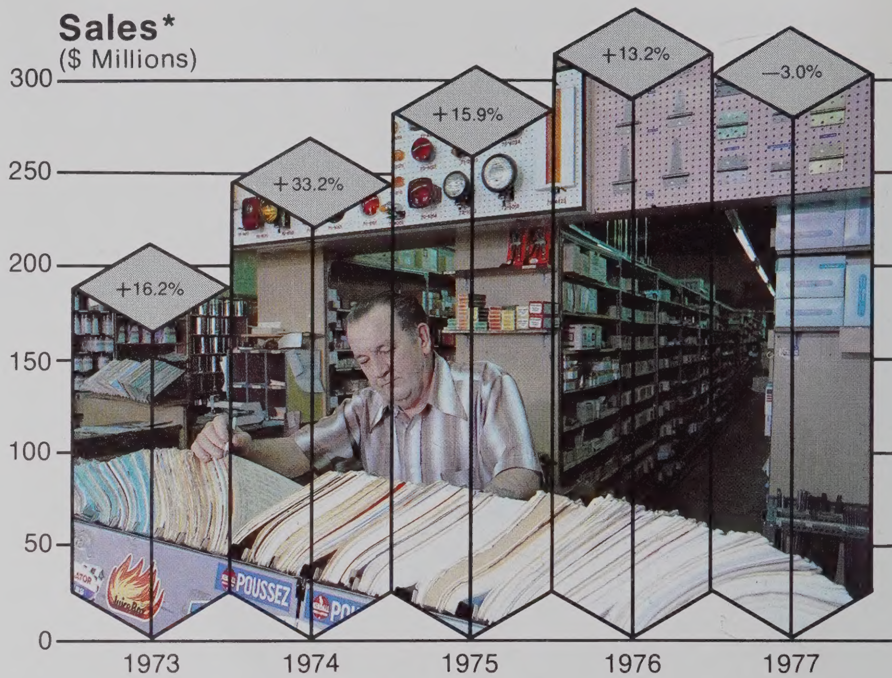
($ Millions)

	1976	1977
Total Shareholders' Equity	42.1	43.7
Less:		
Value of Preferred Shares	3.7	3.5
Common Equity	38.4	40.2
Equity per Common Share	$15.27	$15.97

Common shareholders' equity totalled $40.2 million, up $1.8 million or 5 percent from 1976. Long term debt declined by $2.1 million or 5.9 percent. Acklands' debt (including the value of preferred stock) to common shareholders' equity ratio improved to 94:1 last year from 104:1 in 1976, reflecting additional strengthening in the company's balance sheet.

Return on Equity
For the third consecutive year, return on equity (before gain on sale of fixed assets and extraordinary item) declined from the 22.2 per-

Sales*



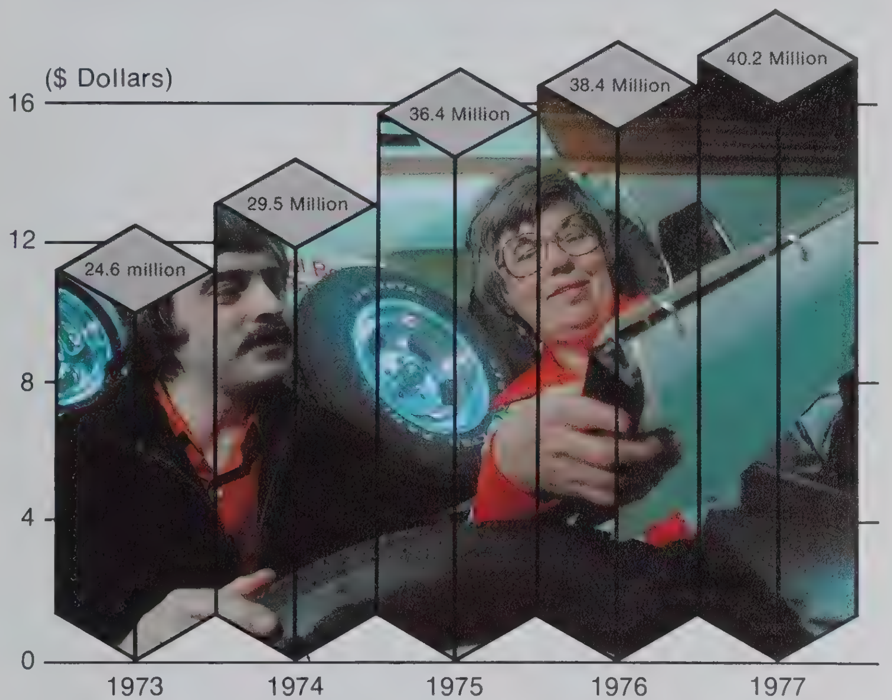
*Before eliminating sales of closed branches

Pre-Tax Income from Operations*

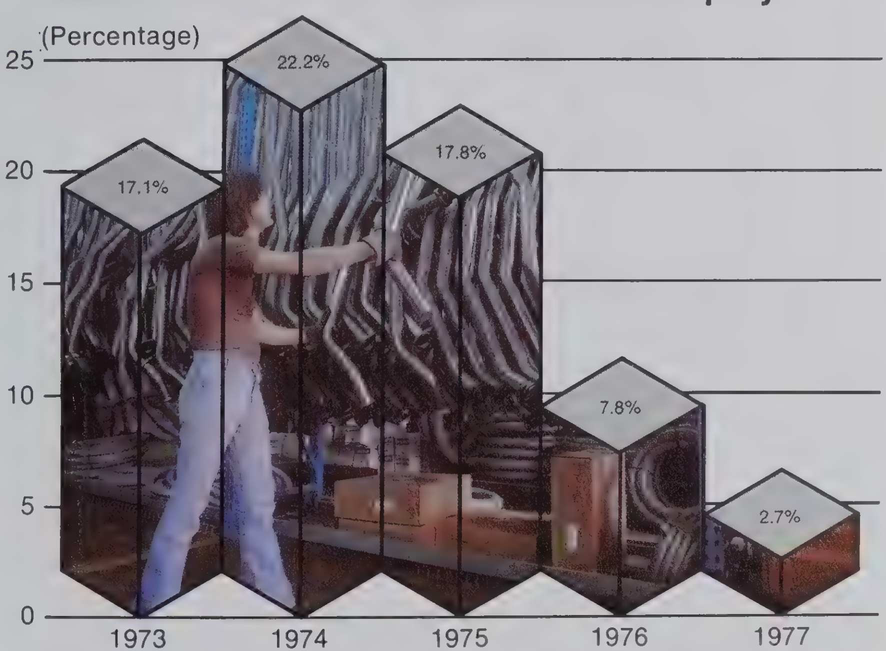
*Before gain on the sale of fixed assets and extraordinary item

Acklands

Common Shareholders' Equity Total and Per Share



Return on Common Shareholders' Equity*



*Before gain on the sale of fixed assets and extraordinary item

cent record high achieved in 1974. With the re-structuring of company operations over the past two years, this deterioration is expected to reverse itself in the current year.

Return on Equity

($ Millions)

	1973	1974	1975	1976	1977
Equity	24.6	29.5	36.4	38.4	40.2
Return	4.2	6.5	6.5	3.0	1.1
Percentage	17.1	22.2	17.8	7.8	2.7

Capitalization

At year end, Acklands' total capitalization of $78.1 million was made up of $40.2 million in shareholders' equity, $3.5 million in preferred stock and $34.4 million in long term debt. For the first time in many years, common shareholders' equity exceeded 50 percent of total capitalization.

Capitalization at Year End

	$ Millions		Percentage	
	1977	1976	1977	1976
Common Equity	40.2	38.4	51.5	48.9
Preferred Stock	3.5	3.7	4.5	4.7
Long-Term Debt	34.4	36.5	44.0	46.4
	78.1	78.6	100.0	100.0

Financial Position

Working capital at November 30, 1977 amounted to $46.2 million, a slight decrease from the previous year. The ratio of current assets to current liabilities improved to 1.51:1 from 1.46:1 in 1976. Cash flow from operations (net income plus depreciation) amounted to $2.6 million and the sale of real estate generated $5.2 million. While $2.8 million was added to long term debt, nearly $5 million was paid off. Dividends amounted to $1.4 million and $4.4 million was allocated to capital expenditures. Total invested capital, including minority interest in subsidiaries, was $135.5 million at year end,

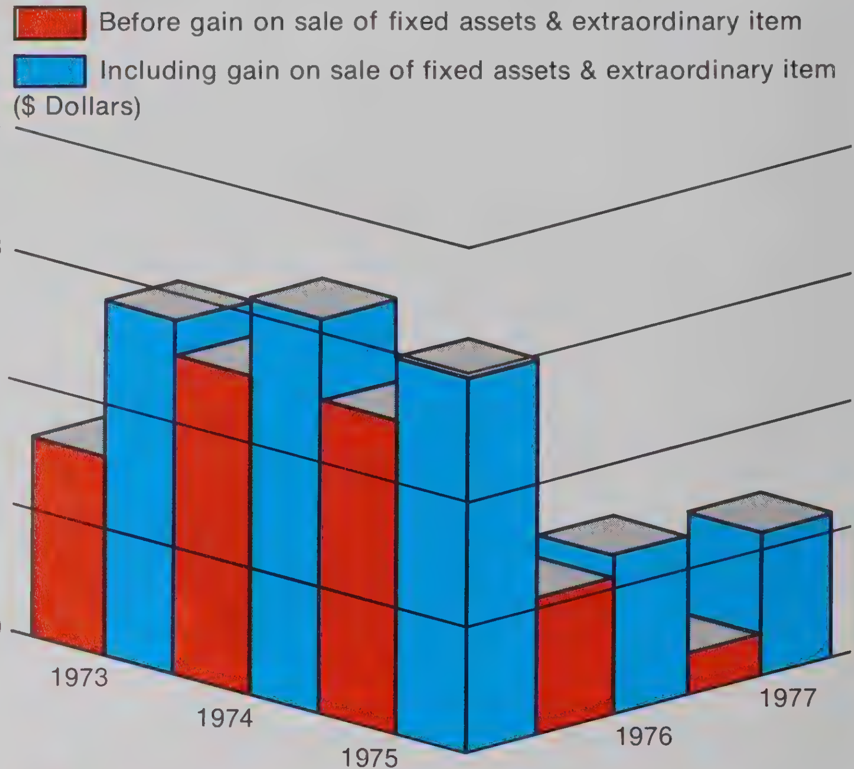
down $4.1 million from 1976. Pretax return on average invested capital was 8.6 percent for the year.

Sales
Consolidated sales volume, after eliminating results of closed branches, was $270.0 million in 1977, up $12.5 million or 5 percent over 1976. Sales of closed branches were $10.4 million, compared to $31.7 million the previous year. Actual sales volume, before adjusting for closed branches, was $280.4 million, down 3 percent from 1976.

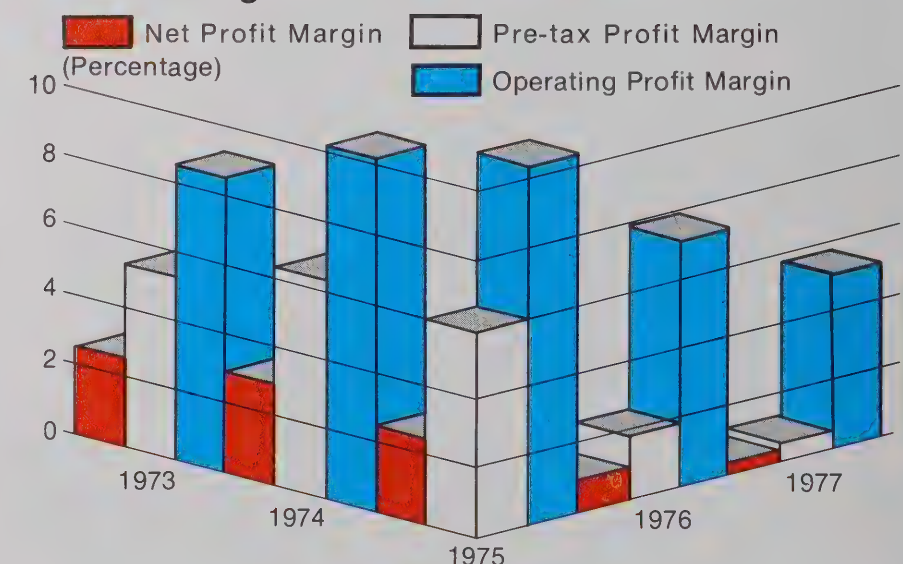
Steady demand for automotive and industrial products tended to balance out the effects of weak consumer demand for leisure and home entertainment products. Acklands' ability to maintain sales volume, in spite of a weak economy and product line disruptions, underscores the fact that the company has a well-balanced business mix, allowing it to draw sales and profits from a wide range of consumer and business customers in many geographical markets. This underlying strength, developed over recent years, will allow Acklands to grow more rapidly in the future than it has in the past.

Inventories
At the end of fiscal 1977, Acklands' investment in inventories stood at $84.2 million, an $8 million reduction from the previous fiscal year. Sales were 3.1 times average inventory, about the same as 1976. Inventory turnover averaged 2.6 times, slightly better than the year before.

Earnings per Common Share



Profit Margins*



*Before eliminating sales and selling costs of closed branches and before gain on the sale of fixed assets and extraordinary item.

Acklands

Quarterly Pre-Tax Profit ($000's)*

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
1973	924	1,746	1,951	4,089	8,710
1974	1,826	2,570	3,166	6,449	14,011
1975	2,152	2,952	2,996	7,147	15,247
1976	2,695	658	728	1,507	5,588
1977	(145)	112	774	1,005	1,746

*Before gain on sale of fixed assets and extraordinary item

Quarterly Sales ($Millions)
Before eliminating sales of closed branches

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
1973	31.0	41.3	43.8	49.4	165.5
1974	40.4	55.8	59.4	64.8	220.4
1975	47.9	63.0	70.0	74.5	255.4
1976	57.3	73.1	72.3	86.5	289.2
1977	53.7	74.0	73.1	79.6	280.4

Quarterly Dividends per Common Share

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
1973	0	.08	.08	.08	24
1974	.08	.08	.10	.10	36
1975	.12	.12	.12	.12	48
1976	.12	.12	.12	.12	48
1977	.12	.12	.12	.12	48

Market Price of Common Shares

	1977		1976	
Quarter	High	Low	High	Low
First	14	11½	15⅛	14⅛
Second	12	11½	14⅝	13¼
Third	11⅝	11	13¾	12
Fourth	11	11	12¼	11½

Interest Expense

Interest charges in 1977 declined by $1.7 million or 14.3 percent from the previous year. This was owing to a reduction in short-term bank advances caused by lower inventory levels and a continuing program of paying down long-term debt. Lower interest rates were also a factor.

Taxes

A lower tax rate resulted from recognition in the accounts of losses being carried forward in certain subsidiaries and the benefit of an inventory tax credit allowing deductions for income tax purposes. Income taxes were $652,000 in 1977.

Dividends

In 1977, dividends on the company's common stock remained at 48¢, paid in equal quarterly amounts of 12¢ per share. Acklands has followed a policy of paying a dividend equal to 20 percent of net profit available to common shareholders. Over the past two years, the payout has been greater, due to returns being lower than those consistent with previous years. Management anticipates a resumption of earnings growth in 1978 and this policy is expected to fall back into line. Acklands appreciates its shareholders' need for profit distribution. The company will continue to review the dividend in relation to profits.

Earnings

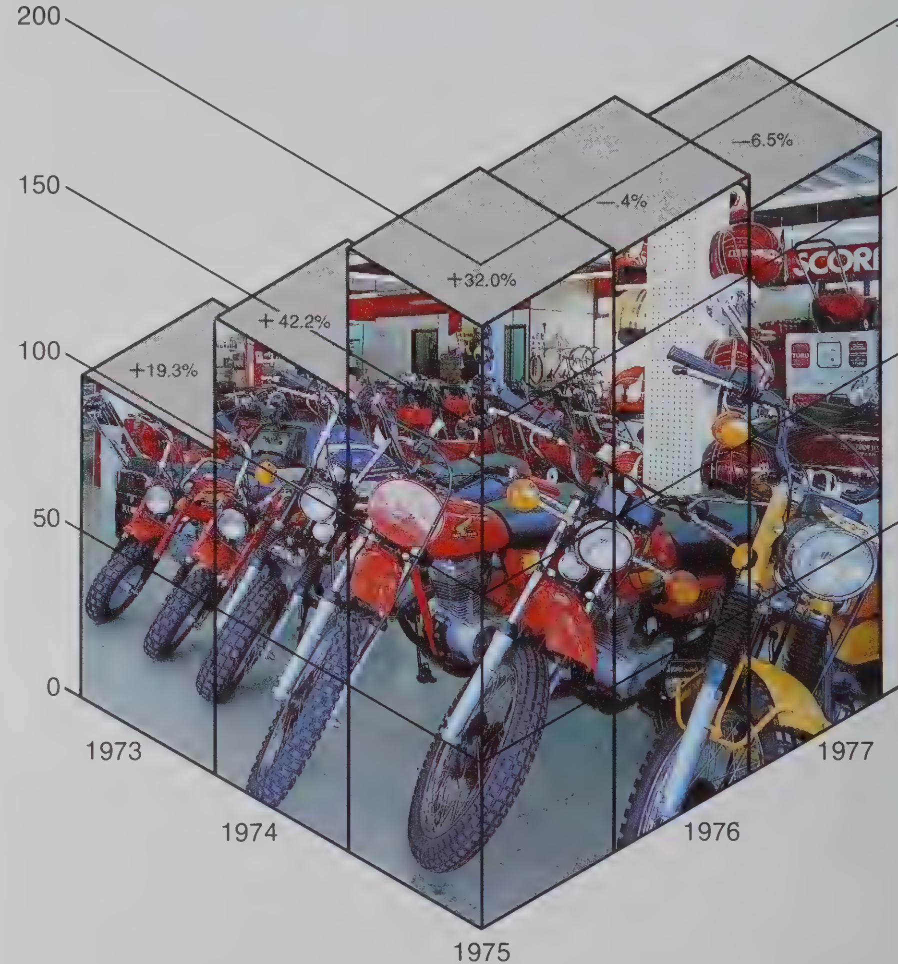
Branch closings and the cost of consolidation were largely responsible for the poor profit performance of 1977. Despite inflation, gross profit margins remained at 32.1 percent in 1977, nearly equal to the 32.0 percent achieved in the previous year. This was mainly due to disposing of discontinued product lines and stiff competition in the face of shrinking consumer and business demand.

A squeeze on wholesaler margins has also been evident in the past several years. Expenses have increased faster than prices, reflecting the impact of the A.I.B. and the relatively higher rate of inflation in such services as transportation and warehousing which are critical to wholesale merchandisers. Because of the A.I.B. regulations, prices were not raised unless there was a corresponding increase in the cost of goods sold, and therefore higher operating costs had to be absorbed without the benefit of higher selling prices.

In 1977, earnings from operations available to common shareholders, declined by 68 percent over the previous year, slipping from $1.10 to $.35 per share.

Growth of Total Assets

($ Millions)



Earnings Summary

($ Millions)

	1973	1974	1975	1976	1977
Net Income from Operations	4.2	6.5	6.5	3.0	1.1
Less Preferred Dividends	.3	.3	.3	.2	.2
Net Income from Operations available to common shareholders	3.9	6.2	6.2	2.8	.9
Earning per share from Operations	$1.59	$2.53	$2.50	$1.10	$.35
Earning per share including gain on the sale of fixed assets and extraordinary item	$2.82	$3.13	$2.99	$1.28	$1.16

Acklands

Auto Place for Service and Parts

Auto Place is a new Acklands retail venture. Two outlets have been opened in Metro Toronto. Two more are planned for 1978.

Auto Place is a combination retail store and car service depot. It carries more than 7,000 automotive products in an area of about 15,000 square feet.

Six service bays, each with its own trained mechanic, provide expert repairs with the help of computerized diagnostic equipment. Auto Place varies from Bumper to Bumper in that it combines parts and service in one location. It differs from other retail/service stores because it sells transportation related products only. Auto Place caters to the mobile public.

The Auto Place idea recognizes the advantage of scale, which makes sophisticated equipment economical. It also trades on the benefits of specialization: everything from the training of staff to selection of inventory is designed to keep cars on the road.

Consumers can get good advice, a broad range of competitively priced parts and specialized repair service for their automobiles.

The first two outlets haven't been open long but results are encouraging. Advertising backed up by expert service has successfully attracted a strong customer following.

Left:
Pictured is the Auto Place store on O'Connor Drive in Toronto.

Operations Review

Automotive Products
Automotive products increased their share of Acklands' sales to 57 percent in 1977, rising to $160.8 million from $158.7 million in 1976. Demand for auto parts and accessories remained reasonably strong overall, but branch closings and reorganizations inhibited sales and profits in this product group. Most of the consolidation took place in Ontario. Closures were a result of earlier rapid expansion in Eastern markets and a subsequent deterioration in consumer and business demand.

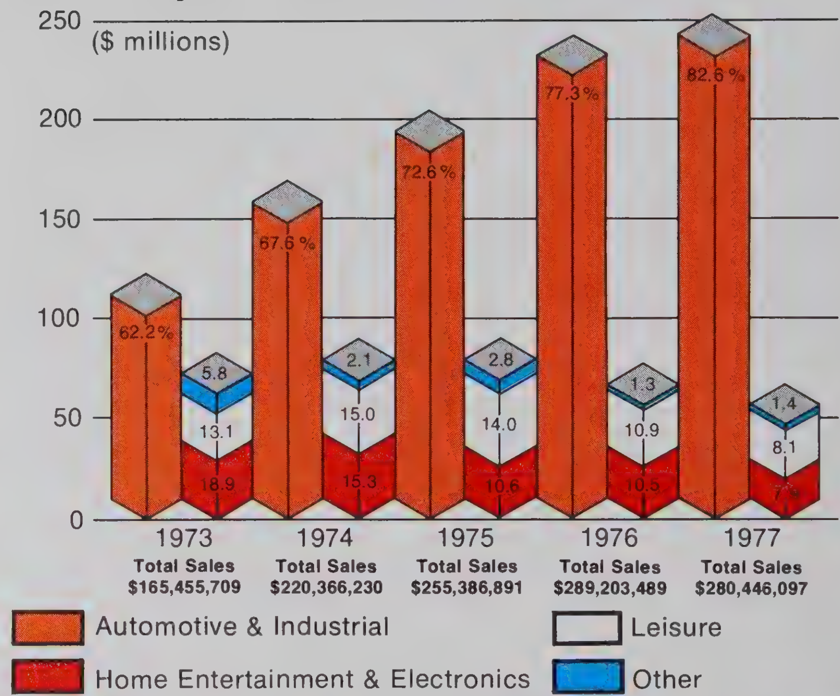
In Ontario, the Eastern and Central Automotive Divisions were combined and a total of 30 branches were shut down. To boost morale, considerable time and attention is now being devoted to motivational training of branch managers and sales personnel. Internal audit staff are also concerning themselves with teaching management and operation techniques at the branch level.

The Ottawa M.A.W. auto parts distribution center was converted to the Moto-Rite program to expand business. Moto-Rite works on a co-op membership basis for wholesale jobbers. It's expected that this move will attract more Eastern Ontario jobbers to our automotive warehouse program and strengthen Acklands' position in this market.

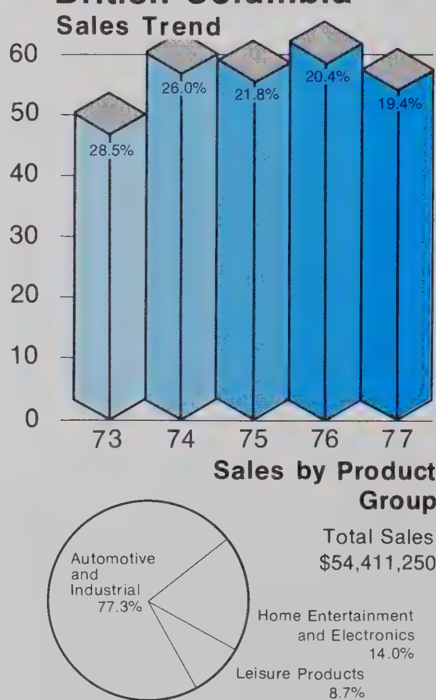
In Quebec, expenses increased dramatically while sales were relatively flat. Strong competition and a weak local economy (following the end of the Olympics) squeezed profit margins and created losses in a number of branches. Four locations were closed during the year.

In Saskatchewan, Acklands opened Canada's most automated warehouse, capable of serving

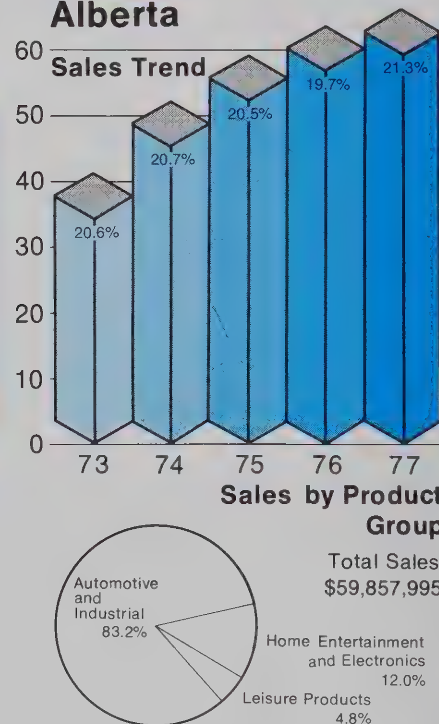
Analysis of Sales by Product Group



British Columbia

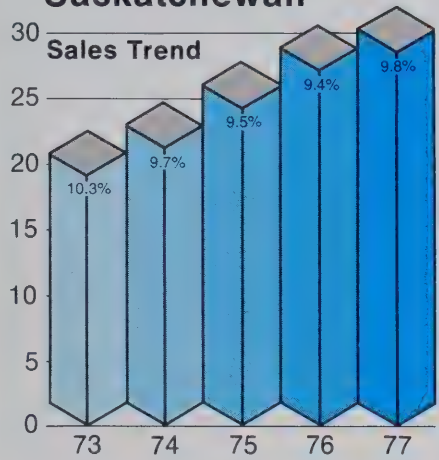


Alberta



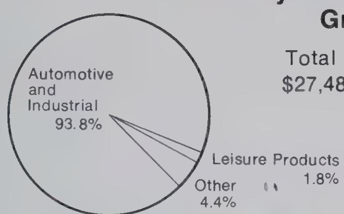
Acklands

Saskatchewan

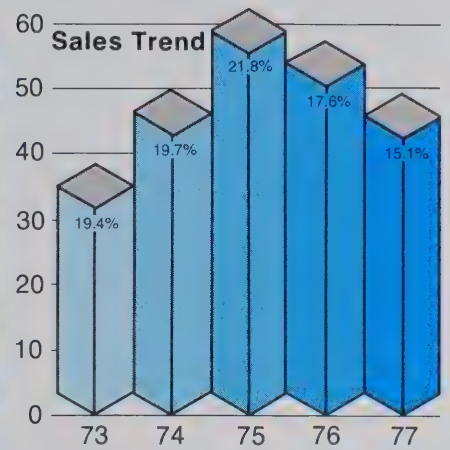


Sales by Product Group

Total Sales
$27,480,128

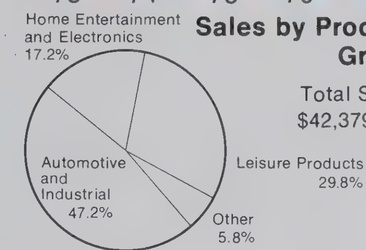


Manitoba

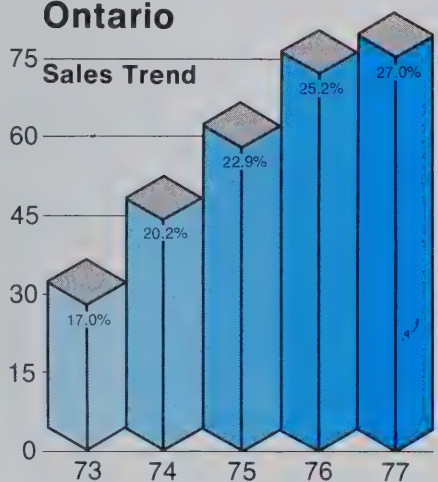


Sales by Product Group

Total Sales
$42,379,479

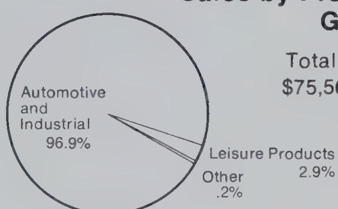


Ontario

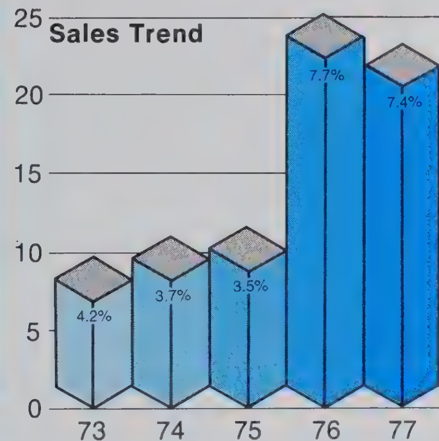


Sales by Product Group

Total Sales
$75,565,269

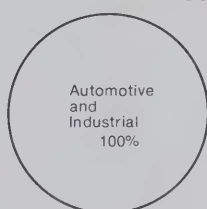


Quebec



Sales by Product Group

Total Sales
$20,751,976



over 1500 customers. It includes a showroom, a machine shop, an elaborate communication system and more than 1300 feet of conveyor belts. Designed to house 48,000 different products, this facility has over four miles of special shelving, photo electric tote boxes to carry parts from the shelf to the conveyors and 1200 feet of pneumatic tubing to take paper work from seven terminals to 12 office locations. Sales in this province should respond favourably to this new distribution center.

Several branches were opened in Saskatchewan and a new warehouse is under construction in the city of Weyburn to accommodate business in that trading area. This facility should be completed in August of this year.

In Alberta, plans have been formulated in order to serve the new pipeline. Additional facilities will probably be required. Most of the supplies for the gas pipeline will be hauled by truck along the Alaska Highway, which should create a large new market for the Alberta Automotive Division.

Western Automotive Rebuilders, Acklands' auto parts remanufacturing subsidiary, experienced poor sales in the beginning of 1977, but demand returned to normal towards year end. The Montreal Engine Rebuilding plant should operate at near capacity levels in 1978, reflecting the upgrading of facilities and manufacturing standards. New accounts were opened in 1977 with major retailers and a new depot has been established in Moncton to service the Maritimes. Ontario's inventories of rebuilt products have been consolidated into a central distribution center. Results for this division should be much improved in 1978.

Overall the automotive parts network is in much stronger shape than it was a year ago. Weak operations have been mostly eliminated, inventories have been consolidated and marginal product lines have been dropped. Attention will now be focussed upon conversion of 150 existing operations to sell retail as well as wholesale under the Bumper to Bumper program. Independent automotive wholesale customers are being asked to convert their existing locations and open new outlets under Bumper to Bumper. This will strengthen our automotive warehouse distribution business.

Industrial Products

Demand for industrial products in 1977 was moderately steady. Industrial sales accounted for 26% of Acklands' total volume, rising nine percent from the previous year. This product group is tied very closely with capital spending and the economy. Canada's industrial capacity has been eroded in recent years by comparatively rapid escalations in labour rates, insufficient investment and uncertainty concerning government economic policy. To offset these difficulties and generate greater sales, Acklands put emphasis on Alberta and the Canadian Northwest where capital spending intentions are buoyant. In Alberta, five industrial branches were opened and eight others moved to larger quarters last year.

The Ontario Machine Tool Division and Union Tool and Machine, a Toronto subsidiary, were combined in 1977. Inventories in the Calgary Machine Tool Division were transferred to Edmonton. This consolidation is expected to reduce expenses and maximize current investment in costly product. The market for machine tools has been weak for three successive years; most of this equipment is imported and devaluation of the Canadian dollar will likely hinder sales further.

A number of industrial branches were merged in Ontario during the year and two Toronto warehouse locations were combined.

Westward Distributors, Acklands' importing arm for hand tools and industrial equipment, opened a branch in Quebec City. This division has reorganized its importing procedures for tighter control. Vancouver is now a central for product imported from the Orient and Toronto for imports coming from Europe. It's expected that this move will result in lower inventory levels by eliminating duplication and cutting down on shipping and transportation expense.

A serious problem for Westward and Acklands generally is the declining value of the Canadian dollar. Acklands imports about $20 million in products from countries around the world. Also, the company's domestic suppliers depend heavily on imported raw materials. The volatility of the dollar not only affects our competitiveness and cost structure, but also plays havoc with pricing and profit margin maintenance.

Although a relatively unprosperous year for industrial supplies and equipment, expansion is being pursued in carefully selected markets. Property has been purchased for a large new distribution center in Burnaby, British Columbia, and in Saskatchewan, equipment rental operations are being expanded.

The outlook for industrial products in 1978 is mixed. No upsurge in demand can be expected in Eastern Canada, judging from continuing weakness in capital spending intentions. However, continuing emphasis on the western Canadian market — especially Alberta — should lead to better results this year.

Leisure Products

Sales for this product group were down sharply in 1977 as a result of discontinued product lines. Volume totalled $22.9 million compared to $31.5 million in 1976. Leisure products accounted for 8 percent of total company sales last year.

The loss of the Mercury outboard engine and Lund boat lines, reported in last year's annual report, is reflected in 1977 results. These products were major contributors to sales and profits in the H. C. Paul Division, Acklands' main leisure goods subsidiary. Combined, they accounted for over $8.0 million in sales volume.

In British Columbia, due to the loss of both the Mercury and Evinrude Outboard Engine franchises, two specialty divisions are being consolidated into one Vancouver location.

Distribution of Sekine bicycles was phased out. Because of the competitiveness of the market, margins were too low to support a distributor. Acklands advised the factory that it was in their best interest to sell direct to dealers. Acklands decided not to proceed with distribution of the Volvo outboard engine line due to heavy promotional expenses needed to establish a market for the product.

Powertown, Acklands' leisure goods retailing subsidiary, had a tough year. To generate traffic, this operation spent heavily on advertising and promotion. Powertown merchandises only high priced, high quality leisure goods such as snowmobiles.

Acklands

boats and motorcyles. Weak consumer demand for big ticket items inhibited sales and profits.

Despite all the upheavals, the H. C. Paul Division remained profitable in 1977. This operation has been quickly reorganized to recoup its market position. It is the first division to have Acklands' computer system installed, which will afford better controls both in administration and in marketing.

New product lines are also being developed. Glastron boats, Scorpion snowmobiles and an expanded line of Yanmar tractors are new franchises which are performing well. In addition, H. C. Paul Limited has obtained distribution rights for Honda outboard engines for Manitoba and Saskatchewan.

These revolutionary outboards feature a four-cycle, water-cooled engine which injects no oil fumes into the underwater exhaust. Operation is quieter and smoother as well.

The leisure product group has now experienced the full impact of lost sales resulting from discontinued lines. Performance should improve considerably in 1978, even if consumer demand does not expand significantly during the year.

Left:
Auto parts are now being sold off the shelf in grocery store fashion. Here a customer shops at one of Acklands' new Auto Place outlets.


CONTRACTORS
SERVICE
COUNTER
PLEASE
TAKE A
NUMBER

Acklands

Electronics Products

Across the Acklands network, 1977 was a difficult year for electronics and home entertainment operations. For the first time in many years, the Major Appliance Division suffered losses reflecting poor demand and tough competition in the market for Zenith televisions. Declining exchange rates and the tariff structure on imported Zenith products added to the problem. To boost sales, specials were introduced and more dealer promotions were organized. In British Columbia, allocation of new home entertainment products in the Major Appliance Division had to be cut back to bring inventories into line.

In Alberta, the Major Appliance Division, which formerly distributed Quasar televisions exclusively in the province, was phased out. The Record Division was also closed. Acklands no longer markets records and pre-recorded tapes. However, the Canadian Electronics Division, consolidated last year, fared relatively well due to improved efficiency.

In Manitoba, operations were tightened and overheads reduced substantially. The Canadian Electronics and Dominion Electric Divisions are being merged, which will allow more efficient use of inventory and facilities.

As mentioned earlier, the last of Acklands' private label home entertainment equipment "Actron" has been sold.

Overall, the electronics products group registered sales of \$22.1 million compared to \$30.4 million in 1976, accounting for 8 percent of Acklands' total sales in 1977.

Left:
Retailing industrial supplies and equipment at an Acklands location in Toronto.

BUMPER TO BUMPER™
"auto parts professionals"

Auto Parts Stores & Service Centers

Going Retail

A wholesaler for nearly 90 years, Acklands is expanding into retail. In fact, the company is creating what will be one of the largest retail chains in Canada — with as many as 250 stores — expected in just a few years. There is nothing tentative or experimental about the push into retail. Acklands is firmly committed.

Why would a large, established company — the biggest warehouse distributor of auto parts in the country — decide to make such a fundamental change in its business? There are several important reasons behind the move.

- Service stations are being forced out of business by self-service gasoline outlets and increased competition from the service bays of large retail chains. Thus, Acklands' traditional customer base is being eroded.
- The do-it-yourself repair market continues to grow. More and more motorists are buying and installing parts themselves. They no longer rely exclusively on professional service. This is business that once went to service stations and garage customers.
- Increasingly, motorists are being attracted to nationally advertised automotive parts and service specials offered by the retail chains. They perceive that prices and service offered by these merchandisers are superior.
- Profit margins at the wholesale level are continually being squeezed. The cost of labour, warehousing, transportation and financing are rising faster than sales and price increases.

Recognizing these factors, Acklands began to search for the best possible way to combine retailing with its wholesale operations. Various alternatives were explored and Bumper to Bumper was the option chosen because it will enable Acklands to build within its existing framework.

The Canadian Birth Of Bumper to Bumper

Bumper to Bumper is what the industry terms programmed distribution. It is a partnership between service stations, wholesale jobbers and Acklands, the warehouse distributor. The partnership spells out what each participant must do to improve sales and service.

What are the key ingredients? First, conversion of jobber wholesale outlets into bright, modern retail stores. Second, the selection of eight to ten special offers every year. Third, advertising.

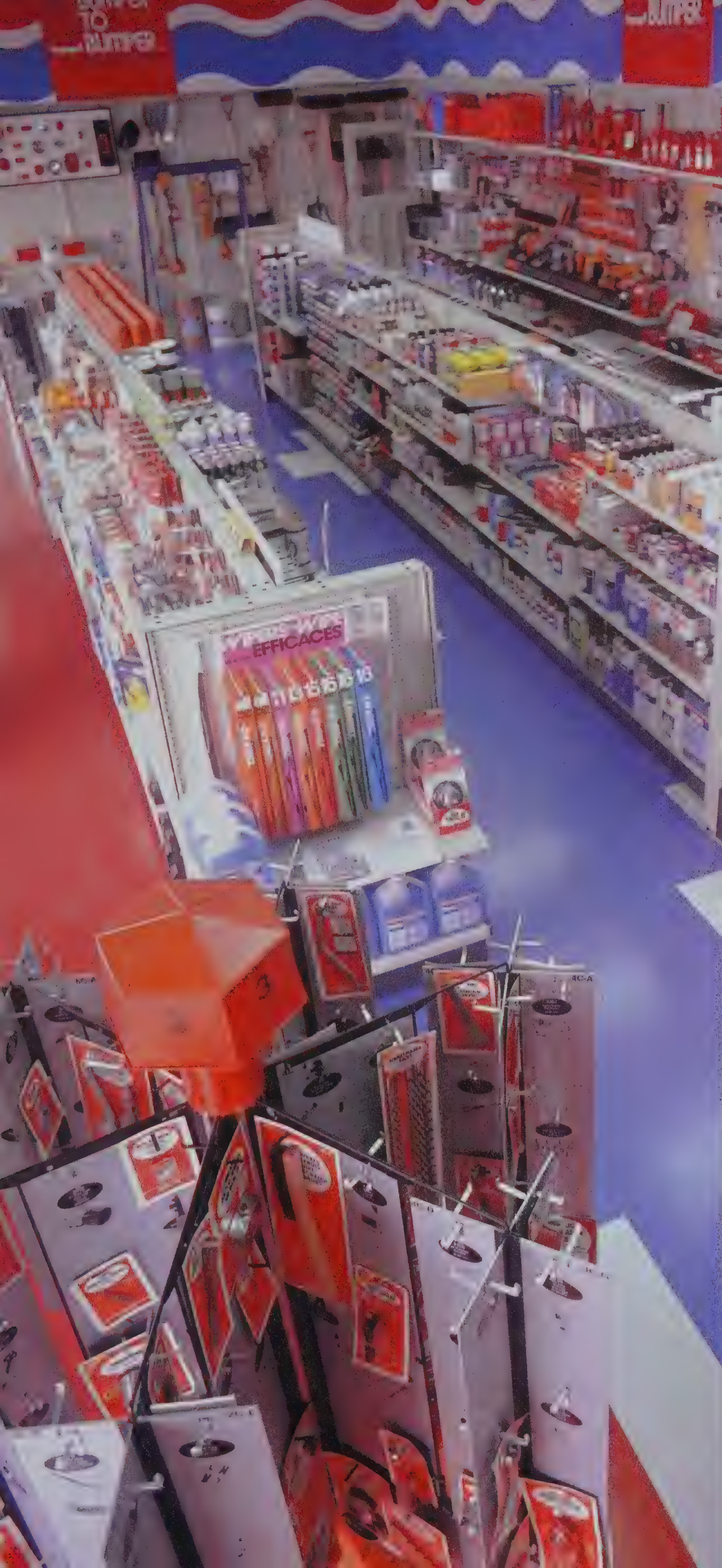
Motorists take advantage of the program in two ways. They can buy auto parts from Bumper to Bumper jobbers at competitive prices and do their own repairs. Or, they can drive into an authorized service center and get the same advertised specials plus the services of a skilled mechanic. The product promotions are available at both types of outlets.

To make the program work, jobber stores need a clean look, professional retail displays and trained counter salesmen. Acklands provides these necessities as well as financial and managerial assistance. Jobbers in turn encourage their service station customers to join Bumper to Bumper and supply advertised specials and promotional materials. Jobbers also advise on pricing and repair procedures. Acklands looks after distribution, selects the specials and arranges the advertising.

Does Bumper to Bumper work? Without question. The program has been a complete success in the U.S. since its inception four years ago. Jobbers have increased their sales and profit margins. Experience in the U.S. has also proven that retailing auto parts does not affect wholesale volumes adversely. And service station participants have been able to increase their repair volumes and efficiency.

Bumper to Bumper works for the following reasons:

- The program capitalizes on the jobber's product expertise. The do-it-yourself motorist wants advice, a place to go where he can talk about his car. Jobber sales staff have this intimate knowledge of cars and car parts. Sales clerks in department stores do not.
- It has the advantage of the jobber's wider range of products. Other retailers provide only fast-moving items but many motorists want more; they are expanding their needs to include more sophisticated repair work.
- Bumper to Bumper uses existing staff, facilities and inventories, making them more productive while incurring relatively little additional expense.
- It combines the strengths of small businessmen who own and manage their own shops with the



benefits of big business — pooled advertising, a national identity, and sophisticated management systems.

• Bumper to Bumper means lower prices and more professional service for the consumer.

Implementation is proceeding at a rapid pace. Sixty stores are already open or in the conversion process. The first promotion will be offered this spring. Acklands has selected 150 of its company owned jobber outlets for conversion to wholesale/retail. A further 100 independent jobbers have made a commitment to join Bumper to Bumper. Hundreds of others have shown enthusiastic interest in the program.

Bumper to Bumper is a first for Acklands and for Canada. It is a proven commodity which the market needs and which the industry supports. It is a vehicle for Acklands to increase sales and improve profit margins.

Left:
The new Bumper to Bumper store in Mississauga, Ontario.

BUMPER TO BUMPER

"auto parts professionals"

The Bumper to Bumper Story

Bumper to Bumper is a comprehensive marketing, advertising and sales promotional program. It is designed to raise gross profits for automotive wholesale jobbers by building up retail trade while at the same time, increasing business with service station and garage customers.

Retail Identification

Bumper to Bumper provides a total package of interior and exterior store identification. Inside — red, white and blue striped pegboard, wall board and logo boards decorate the store. Posters inform customers about current sales promotions, special offers and new lines of merchandise. Windows and floors all have an attractive, consistent look.

On the outside — red, white and blue colours clearly identify the building as a Bumper to Bumper store. The unique trade mark is featured prominently on exterior and interior illuminated signs.

Merchandise is price-marked and openly displayed. In-store merchandising aids, such as T-shirts, caps and jackets are utilized by store personnel to promote the name to customers.

The Bumper to Bumper Authorized Service Dealer

The Bumper to Bumper package includes educational tools for the automotive jobber which sell the program to service station and garage customers. Trade advertising is also used extensively to encourage dealers to join Bumper to Bumper.

A film and brochure explain what Bumper to Bumper can do for the dealer. These sales aids spell out how Bumper to Bumper's sales promotion and advertising thrust

One of the first Bumper to Bumper stores in Ontario was opened by Parks Automotive in Unionville. Reviewing Bumper to Bumper merchandising and promotional aids are Jay and Tae Un Park.

can help them successfully meet competition.

The Bumper to Bumper philosophy maintains that automotive wholesale jobbers and service dealers must work together to compete effectively. Jobbers must sell parts, not just to dealers but to the fast growing self-installer market as well. Dealers must sell expert service and their price of parts has to be competitive. Bumper to Bumper provides dealers with product specials that will bring traffic into their bays and keep customers coming back.

Dealer Identification

To identify themselves as Bumper to Bumper authorized service centers, dealers display Bumper to Bumper signs and banners as well as promotional posters. The dealer and his personnel wear Bumper to Bumper shirts and jackets. Merchandising aids such as pens, lighters and keychains, all with the Bumper to Bumper logo, are available for distribution to customers. This identification helps the motorist to associate the dealer with Bumper to Bumper and the advertised Bumper to Bumper sales promotions.

Bumper to Bumper takes an aggressive approach to attract the motoring public. Television, radio, newspaper and billboard advertising features brand name automotive products at highly competitive prices. It's a total advertising effort designed to create traffic and stimulate sales in every Bumper to Bumper location.

Acklands officially launched Bumper to Bumper on December 13, 1977. Pictured at left is President Nathan Starr discussing Bumper to Bumper at a Toronto Press Conference.

Acklands Limited

(Incorporated under the laws of Manitoba)

Consolidated balance sheet

As at November 30, 1977

Assets

	1977	1976
Current Assets		
Cash	$ 3,934,787	$ 5,233,644
Accounts receivable	48,112,765	49,558,721
Inventories	84,225,432	92,194,262
Prepaid expenses	267,898	188,716
	136,540,882	147,175,343
Other Assets		
Investment in 50% owned companies	791,027	1,211,768
Mortgage and lien notes receivable and other investments, at cost	2,024,191	1,545,579
	2,815,218	2,757,347
Fixed Assets (note 2)		
Land, buildings, equipment and leasehold improvements	42,858,208	43,574,795
Less accumulated depreciation	14,300,795	14,155,600
	28,557,413	29,419,195
Intangibles		
Deferred expenses	401,468	449,154
Goodwill	362,320	635,107
	763,788	1,084,261
	$168,677,301	$180,436,146

Approved by the Board

Nathan Starr, Director

George Forzley, Director

Liabilities

	1977	1976
Current Liabilities		
Bank advances (note 3)	$ 53,939,000	$ 55,540,000
Accounts payable and accrued liabilities	31,585,620	38,368,948
Income and other taxes payable	1,518,669	2,135,409
Deferred revenue	82,102	347,154
Principal due within one year on long-term debt	3,254,936	4,540,425
	90,380,327	100,931,936
Long-Term Debt (note 4)	34,362,510	36,508,127
Deferred Income Taxes	123,726	744,855
Interest of Minority Shareholders in Subsidiary Companies	135,927	138,585

Shareholders' equity

Capital Stock (note 5)	15,382,223	15,576,023
Contributed Surplus	649,935	597,793
Retained Earnings	27,642,653	25,938,827
	43,674,811	42,112,643
	$168,677,301	$180,436,146

Contingent Liabilities and Commitments (note 6)

Auditors' report

To the Shareholders of
Acklands Limited

We have examined the consolidated balance sheet of Acklands Limited as at November 30, 1977 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Winnipeg, Canada
February 10, 1978

Thorne Riddell & Co.
Chartered Accountants

Consolidated statement of income

Year ended November 30, 1977

	1977	1976
Sales	**$270,017,093**	$257,507,912
Cost of sales, selling and administrative expenses before the following	**253,143,049**	234,002,774
	16,874,044	23,505,138
Deduct		
Depreciation	**2,012,865**	1,903,882
Interest on long-term debt	**3,991,262**	4,597,724
Other interest	**6,135,718**	7,221,117
Amortization of goodwill	**272,787**	283,546
Remuneration of directors and senior officers	**1,000,420**	1,191,788
	13,413,052	15,198,057
	3,460,992	8,307,081
Gain on sale of fixed assets	**1,960,640**	289,463
Losses of closed branches (sales $10,429,004; $31,695,577 in 1976) (note 10)	**(1,714,968)**	(2,719,007)
	245,672	(2,429,544)
Income before income taxes and extraordinary item	**3,706,664**	5,877,537
Income taxes (note 8)		
Current	**1,128,583**	2,962,561
Deferred (reduction)	**(476,979)**	(389,825)
	651,604	2,572,736
Income before extraordinary item	**3,055,060**	3,304,801
Income tax reduction realized on the application of prior years' losses	**72,918**	167,673
Net income	**$ 3,127,978**	$ 3,472,474
Earnings per share (note 7)		
Income before gain on sale of fixed assets and extraordinary item	**$ 0.35**	$ 1.10
Gain on sale of fixed assets	**0.78**	0.11
Income before extraordinary item	**1.13**	1.21
Net income	**1.16**	1.28

Consolidated statement of retained earnings

Year ended November 30, 1977

	1977	1976
Balance at beginning of year	$ 25,938,827	$ 23,918,808
Net income	3,127,978	3,472,474
	29,066,805	27,391,282
Deduct		
Dividends on		
Second preference shares	215,155	244,859
Common shares	1,208,997	1,207,596
	1,424,152	1,452,455
Balance at end of year	**$ 27,642,653**	$ 25,938,827

Consolidated statement of contributed surplus

Year ended November 30, 1977

	1977	1976
Balance at beginning of year	$ 597,793	$ 510,706
Discount on purchase and cancellation of preference shares	52,142	87,087
Balance at end of year	**$ 649,935**	$ 597,793

Consolidated statement of changes in financial position

Year ended November 30, 1977

	1977	1976
Working capital derived from		
Operations	$ 2,619,762	$ 4,966,373
Proceeds from sale of fixed assets	5,191,204	4,593,684
Paid-in capital on the conversion of second preference shares	1,000	530
Issue of common shares on conversion of debentures	2,000	1,000
Dividends received from 50% owned companies	770,000	—
Reduction of mortgages receivable and other investments	—	61,500
Increase in long-term debt	2,812,299	875,000
	11,396,265	10,498,087
Working capital applied to		
Additions to fixed assets	4,381,647	4,543,647
Reduction of long-term debt	4,957,916	7,925,133
Dividends	1,424,152	1,452,455
Investment in 50% owned companies	81,584	25,627
Purchase of minority interest in subsidiary companies	1,935	17,738
Purchase of second preference shares	144,658	378,289
Acquisition of businesses less acquired working capital of $314,932	—	1,603,101
Increase in mortgages receivable and other investments	487,225	368,917
	11,479,117	16,314,907
Decrease in working capital	82,852	5,816,820
Working capital at beginning of year	46,243,407	52,060,227
Working capital at end of year	$46,160,555	$46,243,407

Notes to Consolidated Financial Statements

Year ended November 30, 1977

1. ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of all subsidiary companies, all of which are wholly-owned with the exception of minority interest in preferred shares of two subsidiaries and a small minority interest in common shares of one subsidiary. The operating results of all subsidiaries are included in the consolidated financial statements from the dates of acquisition and are accounted for as purchases.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value.

(c) Investment in 50% owned companies

It is the company's practice to include in income its equity in net earnings of companies 50% owned and to reflect in the investment account its equity in undistributed earnings.

(d) Fixed assets

All fixed assets are stated at cost. Depreciation has been recorded on a basis to amortize the cost of fixed assets over their estimated useful lives and the rates applied are substantially as follows

Buildings	2% Straight-line
Equipment, other than automotive	10% Straight-line
Equipment, automotive	30% Diminishing balance
Leasehold improvements	Over the unexpired terms of the lease

(e) Deferred Expenses

The costs of issuing the 11½% First Mortgage Bonds, Series B, and the cost of acquiring certain leasehold rights have been deferred. These costs are to be amortized on a straight-line basis as a charge against income over the terms of the debt and the lease respectively.

(f) Goodwill

The excess of the cost over the net identifiable asset values, designated as goodwill, is recorded as an asset and amortized on a straight-line basis as a charge against income over periods not exceeding forty years.

2. FIXED ASSETS

	1977			1976
	Cost	Accumulated depreciation	Net	Net
Land	$ 4,045,331		$ 4,045,331	$ 4,541,244
Buildings	19,950,292	$ 3,703,896	16,246,396	17,200,314
Equipment	15,803,672	9,428,324	6,375,348	5,929,965
Leasehold improvements	3,058,913	1,168,575	1,890,338	1,747,672
	$42,858,208	$14,300,795	$28,557,413	$29,419,195

3. BANK ADVANCES

Bank advances are secured by the assignment of accounts receivable, a first floating charge on inventories and a junior floating charge on other assets.

4. LONG-TERM DEBT

	1977	1976
Acklands Limited		
Term bank loan		$ 901,028
7% Notes, payable $182,188 December 31, 1977	$ 182,188	546,562
Notes payable, with interest at prime bank rates, payable $275,000 December 31, 1977 and a final payment of $120,095 on March 31, 1978	395,095	1,495,095

4. **LONG-TERM DEBT** (Continued)

Note payable, with interest at prime bank rates, payable $140,000 April 7 annually to 1981	560,000	700,000
7½% Unsecured Convertible Debentures, Series A, maturing June 15, 1988 having a sinking fund requirement of $500,000 per annum	6,950,000	7,281,000
11½% First Mortgage Bonds, Series B, maturing May 15, 1990, payable $1,600,000 May 15 annually to 1980 (see below)	21,800,000	23,400,000
6% to 8½% Notes payable, with varying maturities to 1984	437,857	623,333
Subsidiaries		
6% to 11½% Mortgages, agreements and notes payable in monthly instalments	7,292,306	6,101,534
	37,617,446	41,048,552
Less principal included in current liabilities	3,254,936	4,540,425
	$34,362,510	$36,508,127

Principal due within each of the next five years is as follows:

1978	$3,254,936
1979	3,449,218
1980	2,504,660
1981	2,002,515
1982	1,879,238

Each holder of 11½% First Mortgage Bonds may tender such bonds for maturity on May 15, 1980 at its option if an irrevocable election is made by such holder after May 15, 1979 but before November 30, 1979. The effect of bondholders making such an election has not been reflected in the principal payments due in 1980. After May 15, 1980, principal payments equal to 6.4% of the then outstanding principal are required.

5. **CAPITAL STOCK**

(a) Authorized and issued

	Authorized		Issued	
	Shares	Amount	Shares	Amount
Non-voting second preference shares issuable in series	842,647	$13,482,352		
Series A $0.96 Cumulative, convertible and redeemable at $17.00 per share	229,464	$ 3,671,424	228,970	$ 3,663,520
Deduct				
Converted to common shares during the year	1,000	16,000	1,000	16,000
Purchased for cancellation during the year	12,300	196,800	12,300	196,800
	13,300	212,800	13,300	212,800
	216,164	$ 3,458,624	215,670	3,450,720
Common shares without par value	3,863,299	$13,389,328	2,517,958	11,912,503
Add issued on conversion of				
7½% Unsecured convertible debentures			140	2,000
Second preference shares	1,000	17,000	1,000	17,000
	3,864,299	$13,406,328	2,519,098	11,931,503
				$15,382,223

5. CAPITAL STOCK (Continued)

(b) Common shares reserved for issue

	Expiry date	Price	Number of common shares reserved
Upon conversion of 7½% Unsecured convertible debentures, Series A	June 14, 1981	$14.28	486,500
On exercise of share purchase warrants	September 1, 1978	$14.29	45,000
			531,500

6. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Conditional sales agreements assigned with recourse and other guarantees total $7,072,262.

(b) Outstanding bank letters of credit amount to $1,871,780.

(c) The companies have commitments under leases extending through 1998 which, after recoveries from sub-tenants totalling $2,427,903 call for future net rentals of approximately $9,257,062. Net rentals for each of the next five years are as follows:

1978	$2,208,907
1979	1,553,473
1980	1,102,019
1981	845,741
1982	653,656

(d) In 1975, the company amended the benefits under its pension plan. These amendments have given rise to an unfunded past service liability of approximately $2,556,291 which will be paid and charged to income over a fifteen year period.

7. EARNINGS PER SHARE

(a) The calculation of basic earnings per share, after adjusting for second preference share dividends, has been made using the weighted monthly average number of common shares outstanding in each year.

(b) Fully diluted earnings per share for 1977 are as follows:

Income before gain on sale of fixed assets and extraordinary item	$ .43
Gain on sale of fixed assets	.60
Income before extraordinary item	1.03
Net income	1.05

In calculating fully diluted earnings per share the weighted monthly average number of common shares outstanding has been calculated assuming:

(i) full conversion of the convertible debentures and second preference shares on the dates of issue, and

(ii) the exercising of the outstanding common share purchase warrants on the dates of issue.

Net income used in this calculation, both before and including the extraordinary item, reflects a reduction in interest costs, imputed earnings on exercise of the common share purchase warrants, and the related effect on income taxes resulting from the above assumptions.

8. INCOME TAXES

(a) At November 30, 1977 certain of the companies have losses carried forward on a tax filing basis of $4,890,576. Deferred income taxes on $2,584,585 of these losses have been recorded in the accounts. Deferred income taxes on losses carried forward of $2,305,991 have not been recognized in the accounts, and are available to reduce future income for tax purposes until

1978	$ 14,013
1979	163,422
1980	815,836
1981	673,544
1982	639,176
	$2,305,991

In these companies, undepreciated capital cost of depreciable fixed assets exceeds net book value by $618,031, the income tax effect of which has not been recognized in the accounts.

(b) Income taxes for 1977 have been reduced by $892,085 because of inventory allowance deductions allowed for income tax purposes.

9. ANTI-INFLATION ACT

The company is subject to the Anti-Inflation Act, as from October 14, 1975, which provides for the restraint of profit margins, prices, dividends and compensation. Management is of the opinion that the company has complied with the Act.

10. COMPARATIVE FIGURES

Losses of closed branches in 1976 include the operating results of branches closed in 1977 and 1976.

11. THE COMPANIES ACT OF BRITISH COLUMBIA

These financial statements comply with the disclosure requirements of the Act of Incorporation (Manitoba Corporations Act) and the securities legislation of certain provinces in Canada, but do not purport to comply with all disclosure requirements unique to the Companies Act of British Columbia.

Five Year Financial Summary

Acklands

	1977	1976	1975	1974	1973
***Sales**	**$280,446,097**	$289.203.489	$255.386.891	$220.366.230	$165.455.709
Depreciation	**2,012,865**	1.903.882	1,601.259	1.174.572	870,458
Interest on Long-Term Debt	**3,991,262**	4.597.724	3.265.894	2.384.372	2,014.383
Net Income					
Including extraordinary items	**3,127,978**	3.472.474	7.715.164	8.014,988	7,248.791
Before extraordinary items	**3,055,060**	3.304.801	7.586.139	7.385,078	5,676.268
Dividends					
Preference Shareholders	**215,155**	244.859	253.862	268,784	282,721
Common Shareholders	**1,208,997**	1.207.596	1.200.726	892,339	593,358
Working Capital	**46,160,555**	46.243.407	52.060.227	35.155,009	35,334 259
Fixed Assets, net	**28,557,413**	29.419.195	29.766.167	19.884,378	15,533.445
Long-Term Debt	**34,362,510**	36.508.127	43.192.561	22.556.281	22.705.283
Shareholders' Equity	**43,674,811**	42,112.643	40.469.383	33.837.354	29,098.802
Total Assets	**168,677,301**	180.436.146	181.240.275	137.153.964	96,534,021
Earnings Per Common Share					
Including extraordinary items					
Primary	**1.16**	1.28	2.99	3.13	2.82
Fully diluted	**1.05**	1.14			
Before extraordinary items					
Primary	**1.13**	1.21	2.94	2.87	2.18
Fully diluted	**1.03**	1.09			
Dividends Paid Per Common Share	**.48**	.48	.48	.36	.24
Equity Per Common Share	**$15.97**	$15.27	$14.43	$11.89	$9.91
Common Shares Outstanding	**2,519,098**	2,517.958	2.521.908	2.478.719	2.478.439
Number of Branches	**309**	332	348	272	225

*Before eliminating sales of closed branches.

In Regina, a new 74,000 square foot warehouse was completed during the year. Acklands combined six previously separate operations into this one location. The 125 ft. customer service counter is supplied by conveyor which diverts orders directly to the countermen. Here a counterman fills a customer's order. Within the warehouse facility, there is a 4,000 sq. ft. show room and display area.

Insert: View looking into the main storage system shows the mezzanine, sortation lanes and the tube control center.

Directory

Board of Directors

Philip Ashdown, Provincial Judge, Winnipeg
* **Hyman Bessin,** Chairman of the Board, Toronto *(deceased Feb. 1978)*
Moshe Bessin, President, Mindy's Limited, Toronto
* **Donald E. Boxer,** Director, Burns Fry Limited, Toronto
Michael H. Caine, Director, Booker McConnell Ltd., London, England
Donald Carr, Q.C., Senior Partner, Goodman & Carr, Toronto
* **Daniel W. Casey,** Retired Banking Executive, Toronto
Jacques Douville, Executive Vice-President & Director General, Banque Canadienne Nationale, Montreal
* **George Forzley,** Senior Vice-President and General Manager, Vancouver
Herman Kahn, Managing Director, Lehman Bros. Inc., New York
Norman A. Peden, Vice-President, Edmonton
Simon Reisman, President, Reiscar Ltd. Ottawa
Dr. Nathan Schecter, Physician, Ottawa.
* **Nathan Starr,** President, Toronto
Samuel Wallin, Vice-President, Queen-Yonge Investments Ltd., Toronto
* **Donald J. Wilkins,** Director, Burns Fry Limited, Toronto
* **W. Frederick Wilks,** Executive, Williamsville, New York *(deceased Dec. 1977)*

*Members of Executive Committee

Officers and staff

Hyman Bessin, Chairman of the Board *(deceased Feb. 1978)*
Nathan Starr, President
George Forzley, Senior Vice-President and General Manager
Norman A. Peden, Vice-President
Douglas G. Cumming, Vice-President, Western Operations
Donald J. Dawson, Vice-President, Eastern Operations
Arnold Glass, Vice-President, Finance
Samuel H. Blank, Vice-President, Director of Corporate Purchasing
Blake E. Forrest, Vice-President, International Division
John F. Driscoll, Manager Corporate Affairs and Assistant to the President
Leonard J. Kenna, Vice-President, Special Projects
Allan Ireland, Assistant to the Senior Vice-President (Inventory Control)
Allan R. Smith, Assistant to the Senior Vice-President & Bumper to Bumper Co-ordinator
David M. Craig, Vice-President, Credit
Leonard G. Walker, Manager, Internal Audit (Western Canada)
Samuel N. Smilski, Comptroller
Alex Kozma, Vice-President, Internal Audit (Eastern Canada)
Kiyo Nonomura, Merchandising Manager, Corporate Automotive Division
Wallace Greenspoon, Director of Marketing Services, Automotive and Industrial
Peter L. Sarantos, Corporate Transportation Manager
Victor A. Aker, Vice-President and General Manager, British Columbia
Theodore Stokes, Vice-President and General Manager Saskatchewan
Donald T. Langton, Vice-President and General Manager, Ontario Automotive Division
Andre Rousseau, Vice- President and General Manager, Quebec
Harry C. Paul, Vice-President, H. C. Paul Ltd.
Lloyd Utigard, Vice-President and General Manager, Western Automotive Rebuilders
E. Roland Williams, Assistant General Manager, British Columbia
Allan Strachan, General Manager, Southern Alberta
Arnold Harbour, Assistant General Manager, Manitoba and North Western Ontario
Joseph J. Rorai, General Manager, Ontario Industrial Division
Vivian Daly, General Manager, H. C. Paul Ltd.
Robert Govenlock, Assistant to the Vice-President, Western Operations

Corporate Data

Auditors
Thorne Riddell & Co., Winnipeg

Transfer Agents and Registrars
Common Shares
The Canada Trust Co.
Vancouver, Winnipeg, Toronto and Montreal

Second Preference Shares Series A and 7½% series A Debentures
The Crown Trust Company
Vancouver, Winnipeg, Toronto and Montreal

Counsel
Sokolov, Klein & Company
Winnipeg

Fiscal Agents
Burns Fry Limited, Toronto

Share Listings
Toronto, Vancouver and Winnipeg Stock Exchanges
Ticker Symbol: ACK

Head Office
125 Higgins Avenue,
Winnipeg, Manitoba R3B 0B6
Telephone (204) 956-0880

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100 Norfinch Drive
Downsview, Ontario
M3N 1X2
Telephone (416) 638-7900

Executive Office

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Major Affiliate Companies

Autolec

Canadian Electronics

Gillis & Warren

H. C. Paul

Major Appliances

Maurice Rousseau Et Cie

Modern Automotive Warehousing

Moto-Rite

Regent Automotive

Taylor, Pearson & Carson

Western Automotive Rebuilders

Western Warehouse Distributors

ands Limited and Subsidiary Companies

Acklands Limitée et ses filiales

AND APPLICATION OF FUNDS

ve figures for 1976 (unaudited)

AFFECTATION DES FONDS

es comparatifs de 1976 (non vérifié)

1976	Provenance des fonds
1,940,404	Bénéfices
	Eléments ne comportant pas de fonds courants
742,181	Amortissement
(471,814)	Profit sur vente de valeurs immobilisées
2,210,771	Fonds provenant de l'exploitation
1,187,334	Produit de la vente de valeurs immobilisées
	Diminution d'investissement dans filiales à 50%
65,000	Augmentation de la dette à long terme
11,528	Escompte sur actions privilégiées
3,474,633	
	Emploi des fonds
2,682,435	Additions aux valeurs immobilisées
3,284,231	Réduction de la dette à long terme
16,000	Augmentation d'investissement dans filiales à 50%
726,752	Dividendes versés
108,800	Achat et remboursement d'actions privilégiées de deuxième rang
66,546	Augmentation de l'hypothèque à recevoir et d'autres investissements
6,884,764	
3,410,131)	Augmentation (diminution) du fonds de roulement
2,060,227	Fonds de roulement à l'ouverture de l'exercice
3,650,096	Fonds de roulement à la fin du semestre clos le 31 mai

Le 8 juillet, 1977

Acklands

Interim Report to Shareholders

SIX MONTHS ENDED MAY 31, 1977

SECOND QUARTER '77

Acklands '77

To Shareholders:

The downward trend in sales and profits continued in the second quarter. The poor performance reflects further weakness in consumer and business spending for the company's main markets.

Sales were $127.7 million, off two percent from the $130.4 million achieved in the comparable period of 1976.

Net income for the six months was $141,000 or 1¢ per common share, compared to $1.9 million or 72¢ per common share last year. Included in net profit for the first half of 1977 is a pre-tax gain on sale of fixed assets of $317,000 or 9¢ per common share after tax. The 1976 profit figure includes a pre-tax gain on sale of fixed assets of $472,000.

Loss from operations in the first half of 1977 was $33,000 and, after allowing for taxes and preferred dividend payments, amounted to 8¢ per common share.

Overall demand for auto parts and accessories, Acklands' largest product group, has weakened. This appears to be an industry-wide problem. According to recent figures published by Statistics Canada, sales at the wholesale level are trending downward. We believe this pause in consumer spending is only temporary and probably reflects strong new car sales in the first quarter. The trade-off between repairing an old car or buying a new one presently appears to favour the vehicle manufacturer.

Sales of industrial supplies and equipment are generally sluggish. Business and government spending on plant and equipment is down and farm and construction activity is slow.

However, there are positive trends developing which will assist a profit recovery. Canadian wage settlements appear to be moderating and interest rates are declining. Considering that Acklands has 3,600 employees and an annual interest expense bill of nearly $12 million, both these factors are significant in terms of profit performance.

Recent amendments to the March Federal Budget will provide Acklands with an inventory inflation adjustment in 1977. The change will allow a deduction of two percent of the opening value of our inventories from pre-tax income. Acklands' opening inventories in 1977 were $92 million. This will contribute substantially to overall year end results.

On balance, the outlook for the rest of the year is for improved performance. Thank you for your continuing support.

On Behalf of the Board,

Nathan Starr

Nathan Starr
President

Executive Office
100 Norfinch Drive
Downsview, Ontario
M3N 1X2

July 8, 1977

CONSOLIDATED STATEMENT OF INCOME
Six months ended May 31, 1977 with comparative figur

ÉTAT CONSOLIDÉ DES BÉNÉFICES
Pour les six mois terminés le 31 mai 1977 avec les chiff

	1977
SALES	$127,741,829
Cost of sales, selling & administration expenses before the following	121,778,087
	5,963,742
Deduct	
Depreciation	847,841
Interest on long-term debt	1,720,800
Other interest	3,428,336
Gain on sale of fixed assets	(317,428)
	5,679,549
Income before income taxes, minority interest and extraordinary item	284,193
Income taxes	139,680
Income before minority interest and extraordinary item	144,513
Interest of minority shareholders	3,431
Income before extraordinary item	141,082
Extraordinary item	—
NET INCOME FOR THE PERIOD	$ 141,082
EARNINGS PER SHARE	
Income before gain on sale of fixed assets and extraordinary item	$ (.08)
Gain on sale of fixed assets	.09
Net income for the period	$ .01
Total common shares outstanding	2,518,958

July 8, 1977

...cklands Limited and Subsidiary Companies

Acklands Limitée et ses filiales

...or 1976 (unaudited)

... comparatifs de 1976 (non vérifié)

1976	
130,392,797	VENTES
120,814,339	Coût des ventes, dépenses commerciales et administratives préalables à ce qui suit
9,578,458	
	Moins
742,181	Amortissement
1,992,623	Intérêt sur la dette à long terme
3,491,213	Autres intérêt
(471,814)	Profit sur vente de valeurs immobilisées
5,754,203	
3,824,255	Bénéfices avant impôts sur le revenu, part des tiers minoritaires et poste extraordinaire
1,879,288	Impôts sur le revenu
1,944,967	Bénéfices avant part des tiers minoritaires et poste extraordinaire
4,563	Part des tiers minoritaires
1,940,404	Bénéfices avant poste extraordinaire
—	Poste extraordinaire
1,940,404	BÉNÉFICES NETS POUR LA PÉRIODE
	BÉNÉFICES PAR ACTION
.58	Bénéfices avant profit sur vente de valeurs immobilisées et poste extraordinaire
.14	Profit sur vente de valeurs immobilisées
.72	Bénéfices nets pour la période
2,517,868	Nombre total d'actions ordinaires en circulation

Le 8 juillet, 1977

77

Acklands

Aux actionnaires:

La tendance déclinante des ventes et des bénéfices a persisté durant le deuxième trimestre. Les résultats médiocres traduisent la faiblesse des achats tant par les consommateurs que par les entreprises sur les principaux marchés de la compagnie.

Le chiffre d'affaires s'établit à $127.7 millions, inférieur de deux pour cent à celui de la période correspondante de 1976 ($130.4 millions).

Pour le semestre, les bénéfices nets se chiffrent à $141,000 ou 1¢ par action ordinaire, contre $1.9 million ou 72¢ par action ordinaire l'an dernier. Les résultats du premier semestre 1977 comprennent le profit avant impôt réalisé sur la vente de valeurs immobilisées de $317,000, soit 9¢ par action ordinaire après impôt. Les résultats de 1976 avaient compris le profit avant impôt réalisé sur la vente de valeurs immobilisées de $472,000.

L'exploitation au cours du premier semestre 1977 se solde par une perte de $33,000 qui, après provision pour impôts et déduction des dividendes privilégiés, s'élève à 8¢ par action ordinaire.

La demande globale d'accessoires et de pièces de rechange pour automobiles, premier marché d'Acklands, a fléchi. Il semble que toute l'industrie affronte ce problème. En effet, selon les chiffres récemment publiés par Statistique Canada, les ventes au niveau du commerce de gros accusent une tendance à la baisse. Nous croyons que le temps d'arrêt de la part des consommateurs est de caractère passager seulement, probablement en rapport avec les fortes ventes d'automobiles neuves au cours du premier trimestre. La décision entre la réparation d'une vieille voiture et l'acquisition d'une neuve s'appuie sur des considérations qui favorisent pour le moment le constructeur d'automobiles.

Les ventes de fourniture et équipements industriels sont généralement au ralenti. Les immobilisations de la part de l'industrie et des gouvernements ont baissé et l'agriculture et le bâtiment décélèrent leurs activités.

Cependant, des tendances positives se font jour et celles-ci favoriseront le redressement des profits. Les règlements des revendications salariales au Canada semblent retourner à la modération et les taux d'intérêt baissent. Etant donné qu'Acklands compte 3,600 salariés et que sa note annuelle d'intérêts lui revient à près de $12 millions, ces facteurs revêtent une grande importance en matière de rentabilité.

D'autre part, en vertu de récentes modifications apportées au budget fédéral de mars, Acklands bénéficiera en 1977 d'un allégement fiscal en fonction de l'inflation affectant les stocks. Cette modification nous permettra de déduire deux pour cent de la valeur de nos inventaires à l'ouverture de nos bénéfices avant impôts. Or, en 1977, Acklands avait à l'ouverture des stocks d'une valeur de $92 millions. Cette mesure aura donc un effet considérable sur les résultats globaux à la clôture de l'exercice.

Somme toute, les perspectives pour le reste de l'exercice sont ceux d'une amélioration des résultats.

Le Conseil vous remercie de la confiance que vous lui témoignez.

Au nom du Conseil,

Nathan Starr

Nathan Starr
Président

Bureaux de direction
100 Norfinch Drive
Downsview, Ontario
M3N 1X2

Le 8 juillet, 1977

Acklands

Rapport trimestriel aux actionnaires

POUR LES SIX MOIS TERMINÉS LE 31 MAI, 1977

DEUXIÈME TRIMESTRE DE **77**

CONSOLIDATED STATEMENT OF SOURCE

For the Six Months ended May 31, 1977 with comparat

ÉTAT CONSOLIDÉ DE LA SOURCE ET DE L'

Pour le semestre terminé le 31 mai 1977 avec les chiffr

Source of Funds	1977	
Income	$ 141.082	$
Items not involving current funds		
Depreciation	847,841	
Gain on sale of fixed assets	(317,428)	
Funds derived from operations	671,495	
Proceeds from sale of fixed assets	1,253,703	
Decrease in investment in 50% owned companies	370,001	
Increase in long-term debt	982,500	
Discount on preference shares	10,543	
	3,288,242	
Application of funds		
Additions to fixed assets	2,628,207	
Reduction of long-term debt	3,128,797	
Increase in investment in 50% owned companies		
Dividends paid	713,663	
Purchase and redemption of second preference shares	41,600	
Increase in mortgage receivable and other investments	7,019	
	6,519,286	
Increase (decrease) in working capital	(3,231,044)	
Working capital at beginning of year	46,243,407	
Working capital as at six months ended May 31	$ 43,012,363	$

July 8, 1977